

**A Report on Findings, Achievements and Recommendations from the
Feasibility Analysis of a Farmer-Chef Distribution System in Colorado:**

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The Farmer Chef Collaborative: Background, Findings and Recommendations

The Farmer-Chef project sponsored by the USDA-FSMIP, and undertaken by the Colorado Department of Agriculture's Markets Division and Colorado State University was conducted in 2001 to explore the potential for systems that distribute produce to restaurants and food institutions interested in supporting local agriculture. Although some of the initial objectives were altered to fit the outcomes of original efforts in developing a larger, regional distribution system, all of the original plan of work was addressed in some fashion. Below is a summary of our work and findings.

1) Conduct market research on the size of the Colorado market for produce of farmer's market origin, variety, quality and price

Survey and focus group methods prove quite ineffective for both the producer and chef population. In reality, the size and scope of the market is best defined on the ability to secure real sales in specific markets. Individual visits with chefs, once produce is available, is the only viable way to ascertain their willingness to buy from a local distribution system, and to determine an expected weekly volume in sales for that client. On the producer side, visiting markets at each point of the season is the best way to determine price points, quantity available and seasonal timing. There are some figures available with expected seasons, but given Colorado's uncertain weather and climate, the average season never seems to happen.

Given this year's experiences, it can be assumed that between 5-10% of chefs have some interest in buying locally, and that sales per chef will average between \$50-250 dollars a week. The ability to actually secure sales and clients is fully dependent on the persistence of the salesperson/distribution manager. If weekly calls are made with reliable, consistent follow-up, chef recruitment and retention is much higher. Recruitment efforts can also be strengthened with some complimentary produce at the first visit, and accompanying the first orders, to assure customer loyalty. Price premia can range from 5-50%, depending on the nature of the

product....if it represents a small share of the chef's food budget and makes a large impact on food quality or presentation, then the premium can be higher (herbs, specialty produce), but if one hopes to secure some substantial volume of staple commodity sales, the premium may need to be in the 5-10% range. Most chefs are willing to share invoice numbers so that price points can be negotiated and established.

Among producers, the best way to determine supply capability is to make an initial visit (personal visits work best for producers as well) and map out their expected seasons and volumes. But, given uncertainty in production, it is helpful to have monthly, if not weekly, talks at market to adjust the timing and expected volume of crops. Except for the demand for a few specialty products, there was rarely a problem finding sufficient supplies. But, chefs do have some difficulty in understanding the seasonal constraints for supplies of some products (the late arrival of tomatoes, beans and squash in Colorado or challenges of producing greens during the hot, summer months).

2) Critique various business models and decide on a organizational structure that is feasible for Farmer-Chef Distribution

The literature review that provides the background for this effort is presented below. Findings from this background research were used in addressing a few challenges and difficult decisions over the market season. Although it is not possible to recommend one particular approach, the information provided in the review, and options presented in the business plan, should guide future efforts in this area.

3.) Conduct operations analysis of distribution program for one year to establish an organizational and develop a Business Plan based on the market findings

A business plan accompanies this report that includes specific recommendations

on various operational, planning, marketing and financial issues. A Colorado State University Cooperative fact sheet and academic publication will also be developed to highlight the generalizable results of this work for other communities, states and regions.

Background Research

The local farmer's market is often seen as an outlet for smaller producers, often committed to sustainable agriculture, to develop direct marketing relationships with the community at large. While these markets are noted successes in direct market development, many farmers participating in Farmer's Market continue to face challenges in move sufficient quantities of produce at prices that will allow them to sustain their operations. Restaurants are viewed as one potential focus that can further improve direct marketing opportunities, but securing access to chefs is not always a simple task. The potential for a distribution system between farmer's markets and restaurants is the focus of this study. We will begin with an overview of this project's objectives, supported by past experiences with restaurant marketing in other regions and states. Finally, a discussion of the operational, marketing and financial opportunities and threats will be presented, with specific examples from the 2001 pilot project in Northern Colorado.

Carol Beaver independently foraged at the Boulder County Farmer's Market during the late 1990's to provide fresh produce to a number of restaurants. Although her work and efforts drew wide acclaim, there was no long-term sustainability for her foraging operations. Yet, her business concept became the focus of a 2000-01 USDA Federal State Marketing Improvement Program (FSIMP) grant given to the Colorado Department of Agriculture-Markets Division and Colorado State University. The grant was originally specified as an attempt to promote operations that furthered Beaver's concept throughout the Colorado Front Range¹, but as planning progressed the objectives changed and the model was broadened to suit the needs of different

¹ The Front Range is an area along I-25 in Colorado that includes the communities of Fort Collins, Boulder, Denver and Colorado Springs.

markets. The primary goal of this paper and the report on farmer-chef marketing is to discuss the operational and business issues related to delivering fresh, local produce to area restaurants who are dedicated to supporting local food systems.

In addition to providing detailed information on how farmer chef distribution operated in the Front Range during the 2001 market season, this study provides some generalizable background research on other operations with similar distribution goals, a broad overview of the potential for these operations in local communities (including a brief SWOT analysis), and concludes with policy and marketing recommendations for public and private entities that are interested in furthering market opportunities for small, local and/or sustainable producers.

An overview of produce distribution business models

Direct markets targeted at consumers, including community supported agriculture (CSA), farmer's markets, produce stands and pick your own farms, present good opportunities to producers. However, an increasingly large share of consumers' food dollars are being spent away from the home, so increasing market opportunities may require a stronger affiliation with restaurant and food institutions. There have been several pilot and long-term programs developed throughout the US to create links between restaurants and producers, each of which is outlined below.

Homegrown Wisconsin

Perhaps the most successful program that directly delivers fresh produce to restaurants is located in Wisconsin. *Home Grown Wisconsin* (HGW), <http://spingree.cals.wisc.edu/homegrow/index.htm>, began with the help of a grant and the desire to provide additional outlets for local producers. HGW was developed and supported by a core group of dedicated producers from the start, which led to a stable base of leadership. The group organized after a series of discussion with interested parties and conducted a privately funded survey in 1994 that confirmed the demand for local produce among retailers and restaurateurs. Greg Lawless, a researcher with the

University of Wisconsin Center for Cooperatives received the initial Wisconsin Sustainable Agriculture Program grant that initiated HGW and he was able to continue to procure grants to maintain the project during 1996 and 1997. Their experiences would suggest that a 2-3 year timeline is necessary to establish the market size necessary to support operations, and to determine the optimal operational plan.

Deliveries for HGW began in 1996 with 15 producers and 94 fruit and vegetable varieties offered on a *Crop Availability Sheet*. Sales through HGW represented only 10-20 percent of total sales for participating producers in 1996. Restaurant sales were determined to be the preferred outlet for HGW and the Madison restaurant community was targeted in the 1996 season. The organizational structure in 1996 was a cooperative with both chefs and farmers as members of the organization. The initial marketing structure was based on a model used by a group in Georgia, but was modified in the future to include only farmers as co-op members since chefs simply didn't have the time necessary to dedicate to the project. Eventually, 11 restaurants financially committed to HGW by contributing \$75.00, and farmers were also asked to contribute \$75.00 to become members of the co-op.

The first season resulted in a net loss that was divided amongst producers based on the amount of sales they had made through HGW. Day to day operations were handled by two men who had extensive experience in produce marketing and who eventually donated their time as funds ran low during the season. The program was continued in 1997 and still remains active today. Because of disappointing sales in 1996 the market was expanded to include Chicago for the 1997 season. A new marketing manager was hired who worked on a commission basis and new restaurants in Madison were also added because of the word-of-mouth goodwill generated by HGW in 1996. Some information on their operations (from the Webpage) follow:

Why use Home Grown Wisconsin?

We guarantee fresh, high quality organically grown produce

Chefs have more say in what they receive

Your restaurant and customers are supporting small farms

You can let your customers know who we are, how we farm and what they want to know about the specialty varieties on their plates by giving them a link to this website

It is efficient and simpler to deal with one vendor instead of several

We offer very competitive pricing

Order and Delivery

Our contact with restaurants works on weekly cycles. On Monday and Friday Home Grown farmers submit their crop availability lists to our general manager, Rink DaVee. He then compiles that list and distributes it to restaurants by fax on Tuesday and Saturday (and also posts it [here](#) to this website). The list is very specific and includes exact descriptions of varieties, along with the quantity of product available and price. Chefs review the list, and then simply fax it back by Sunday or Wednesday (or click on what they want and submit their form by Sunday or Wednesday). Chefs are encouraged to work with [Rink](#), who was a chef liaison and restaurant food buyer and who knows each farmer's produce. Farmers then harvest and drop off their produce for delivery on Tuesday and Friday.

The three major points one can draw from the HGW experience are:

- 1) Allow member-producers to maintain their identity so that chefs can connect with their products, and marketers can counteract the price pressure of commodities by using the producer name as a differentiated brand.
- 2) Assume you will need one to two years to really develop the market. Homegrown Wisconsin went from \$500 in sales a week to a more sustainable \$4-5000 weekly between 1996 and 2000.
- 3) Hard marketing was identified as the key to reaching a positive bottom line. The co-op needed to court new customers, give them a hard sell, and provide stellar service and product quality.

Other examples of smaller scale projects exist throughout the country. While HGW seems to have proved that, through perseverance and the judicious use of grants, a project like this can be profitable for a cooperative organization, there are also success stories for non-profit organizations, such as Red Tomato.

Red Tomato

Red Tomato is a not-for-profit marketing organization, begun in 1998, whose purpose is to strengthen family farms and ecological farms in the Northeast, and to increase consumers' access to and awareness of farm-fresh fruits and vegetables. Red Tomato delivers local, seasonal produce to Northeastern retailers, rather than focusing on restaurants. Red Tomato expanded out-of-season deliveries in the north by forming a strategic alliance with a network of African-American family farmers that have a complementary production season, the Federation of Southern Cooperatives.

In addition to Red Tomato's dedication to delivering fresh, flavorful produce to local retailers, they also emphasize sales of produce that is ecologically grown and sourced according to fair-trade criteria. They have also made a strong commitment to consumer and food buyer education, as evidenced by the quality of materials they produce for distribution to potential customers (on the company's broad mission, integrated pest management, discriminatory trade practices, among other topics).

From the small pilot brokerage project developed in Eastern Massachusetts in 1998, Red Tomato has grown to include a larger geographic region and trucking services (in 1999) and refrigerated warehouse space, office space and information systems (in 2000). Red Tomato is attempting to differentiate itself, and create value, by matching the needs of both buyers and sellers. For buyers, it coordinates orders, delivers product, provides weekly product-price lists and provides point-of-sales materials. For farmers, Red Tomato develops new account, bears financial risk, markets and promotes the wholesale image of Red Tomato product lines and provides buyer feedback to producers on quality and product needs.

It is clear from reading Red Tomato's Business Plan that marketing is their primary focus at this time. They begin their plan with a brief description of a typical peach's travels from farm to consumer, and how that process differs with their system....a very engaging contrast. This is similar to the important factors of success highlighted by Greg Lawless regarding HGW:

“...market research; market demand; high-quality produce; professional service; and finally, *marketing, marketing, marketing.*” Red Tomato decided to make its brokerage service a wholesale brand (rather than maintaining the producer identities) and then differentiate itself based on its not-for-profit status and the priority it gives to securing product in a way that enhances social, health and environmental outcomes.

Red Tomato readily admits in their business plan that one of their biggest obstacles to long-term success rests in the outstanding marketing and organizational skills of their co-founder – Michael Rozyne. In the HGW situation, marketing functions were able to pass from one market manager to another based on a well-established business plan and appropriate incentive program. Red Tomato also believes that they will be able to train or hire dedicated, effective people that can continue their model past Rozyne’s retirement.

Red Tomato is not, as yet, self-sufficient but they anticipate that they will cover 50 percent of operating costs by 2004 with the difference funded by long-term loans and grants. They received \$174,500 in 1999 in the form of grants and projected their 2000 grant income as \$284,000, estimating that a further \$810,000 would be necessary through the 2003 season. This grant income is in addition to \$941,000 in long-term loans needed to maintain operations.

Practical Farmers of Iowa

A third model, also funded under a USDA-FSMIP grant, has established a delivery system between a group of farmers and the banquet facility, the Scheman Center, at Iowa State University. The goal of this program is to expand institutional marketing outlets for members of the Practical Farmers of Iowa (PFI) organization. There are other projects being supported under the grant, most of which concentrate on easing the ordering of local produce so that institutions (hospitals, nursing homes) can serve fresh local produce to their patients. The Scheman Center program was established informally in 1996 and has been expanded and refined to ease ordering and delivery issues. A three-season menu was established with the Scheman Center chefs that is workable for producers since it changes according to the availability of seasonal produce. Meat

and vegetarian entrees are also available through the PFI delivery system. To support the long term viability of this type of brokering service, the Scheman Center and member participants have agreed to a fee for service program. Farmer's must be members of PFI, which has a \$25.00 fee, and pay an additional \$10.00 to participate in this program. They also must remit 5% of total sales through the program at the end of the season. Institutions pay a \$100.00 annual fee. The Scheman Center pays the \$100.00 fee by charging an additional \$.60 per person per meal for the Iowa's Choice menu. In the year 2000, the program purchased \$16,092 of products from the PFI system and fed 5,638 people.

While the program has so far been successful, and the introduction of the fee system may help support long-term viability, the delivery and ordering process is noted as a potential problem. Currently, it is requested that the Scheman Center chef should notify the PFI contact of the upcoming banquet as soon as it is planned. However, since event organizers are not used to providing long-lead times for food orders (most distributors can provide the ordered product with only a single day turnaround), communication has not always happened in a timely fashion. The phone call from the kitchen is followed by an e-mail order from the purchasing department for the center. Unfortunately, if no pre-order phone call has been made, then the first time PFI may be aware of the order is when the purchase order is made. Though this is very difficult for PFI to deal with, they have so far been able to fill all orders, even those received with very little lead time. Delivery is then handled by the individual farmers who are parceled out orders by PFI which serves as a broker at this point. However, farmers are occasionally unable to directly deliver product to Scheman as the program is organized, and PFI will step in and make the delivery. Also, because some of the suppliers, especially for meat, are located at a great distance from Ames there can be complicated delivery processes involving dropping product at farmer's markets where it is eventually delivered with another farmer's product to the Scheman Center. It seems that this program has developed an extensive informal marketing program where requests are made for meals outside of the Scheman Center. PFI has accommodated those requests

wherever possible, using 17 locations in 2000. Overall the program has made a promising start, but delivery, ordering, and cost issues need to be more fully addressed before the program can be declared a sustainable project. It has, however, already shown itself to be a success.

Other examples of RSA's come from Pennsylvania, New York and Hawaii. All operate to some degree as a cooperative program that provides delivery to restaurants either through a farmer's market or directly, but with order management handled by some central organization. There are also numerous examples of individual farmers establishing direct relationships with individual farmers and handling delivery on their own. Also, a push-pull marketing strategy seems to be the best method to get chefs to take new or unique products, as well as to establish a relationship in the beginning. In the push-pull strategy in-season produce is suggested to restaurants, in some situations un-ordered produce is delivered to restaurants who still choose to buy it because of its superior freshness. The pull part of the strategy comes from consumers who demand the fresh, local produce either by demanding superior flavor or specifically asking the restaurant (or retailer) to carry local produce. While Red Tomato and HGW seem to be the two most successful examples of non-profit organizations developing new markets for local produce, their models rely heavily on the expertise of existing produce marketing talent. And, these organizations grew to a size that may be unmanageable for local producers to develop and manage. It does appear that seed money is needed for either small or large ventures to develop the market and establish the organizational structure needed to conduct produce distribution.

A brief strategic market analysis may be the most effective way to summarize the efforts and experiences from farmer to chef distribution operations.

SWOT Analysis

Strengths

Organic sales are strong and continue to grow and the natural foods industry is strong (Rozyne). Since farmer's market participants often highlight these production practices in their own operational plans, marketing to chefs who are aware and concerned about food quality and safety may be facilitated.

There is some evidence that farmer to chef distribution systems are feasible if seed money is available to establish the initial market connections, reputation and operational structure needed to be successful. Most producers and chefs participating in these marketing efforts agree that they are important and complement other goals of their operation. Thus, there is some derived demand for marketing programs and efforts to support the development and initial operations of farmer to chef distribution systems. The benefits include increased sales volume, complementary marketing outcomes to other direct marketing efforts (farmer's markets and CSAs) and increased awareness of local agriculture, all issues that have garnered some support from various commodity, government and nonprofit agencies that support agriculture.

Weaknesses

Chefs and producers are both difficult to organize, coordinate and integrate into long-term planning. Some of this is due to uncertainty within their industries, and may also be due to the fact that they are entrepreneurs who are used to having much of their operational plans self-contained and under direct management. Without great efforts to organize and coordinate the suppliers and purchasers, no distribution system will be successful. This is the most likely

explanation for the fact that all successful distribution operations have been very reliant on the strong personality of the leader/manager that “makes things happen.”

Opportunities

This concept takes advantage of emerging trends among consumers, retailers, restaurants and media. The New York Times featured an article this June that overviewed the Family Farm-Chef connection with the eye-catching detail that a former under Secretary of Agriculture, Gus Schumacher, freelances as a distributor in his free time (Burros). Mr. Schumacher began the New American Farmer Initiative program at the USDA during his tenure, a program that was passed on to J.B. Penn who was newly initiated into his USDA position. It is hoped that this strategy furthers the market opportunities made available by the expansion of farmer’s markets. These new efforts within the USDA demonstrate the support and attention market accessibility is receiving, but does not fully address the logistical challenges to be overcome.

Threats

There is not a strong awareness of local agriculture and food system issues among consumers and other food buyers. All the studies referenced in this report note the need for greater education among the food buyers and producers on sustainable and local food system issues. This educational groundwork will make future efforts to secure direct markets more likely to be successful, which may in turn support awareness and increase those consumers who demand products that support local food systems.

The U.S. systems of produce distribution are possibly the most efficient in the world, and this contributes to the competitive environment faced by new distribution systems. Each link in the marketing channel watches out for its own best interest, which may threaten cooperative ventures. Any new marketing and distribution efforts need to be careful to directly assess the role they will play in the market, whether it is to improve the quality of produce available, promise delivery within 24 hours of harvest, help chefs market and promote the stories behind their products or simply move volumes of commodities at wholesale prices in a cost-efficient manner.

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